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CENTRAL INTELLIGENCE AGENCY

7 January 1949

INTELLIGENCE MEMORANDUM NO. 116

SUBJECT: Flight of French Capital through Under-invoicing.

1. The Economist, in an article entitled "Leaks in the French Economy" in the issue of December 25, 1948, charges that one of the principal factors contributing to the large deficit in the French balance of payments is the under-invoicing of French exports. As a result, it is claimed, "there is a large flight of capital, which unofficial estimates put at \$500 million, a sum equal to half the American aid extended to France this year." As a basis for this charge the Economist states that "in the first half of 1948 exports were 15 percent lower than in the previous year by dollar value, but 36 percent higher by weight."
2. Examination of French trade data, however, reveals that those charges by the Economist are largely false on the following grounds:
 - a. The increase in French exports by weight in the first half of 1948 over the first of 1947 was not 36 percent but 18 percent.
 - b. The absolute amount of the increase in volume was 1,185,304 metric tons and is accounted for largely by an increase in coal and iron and steel exports from 321,485 tons for the first half of 1947 to 1,354,906 tons for the first half of 1948. This increase, moreover, reflects chiefly the statistical inconsistency that French exports did not include exports from the Sear in 1947 but did include them in second quarter of 1948.
3. The particular evidence cited by the Economist, therefore, is inaccurate and magnifies the amount of under-invoicing of French imports and capital flight by as much as 60 percent. This is not to deny that under-invoicing is a common French practice or that it results in a deprivation of resources which could be used to strengthen the French economy. Under-invoicing, however, is not peculiar to France and is not a recent development more or less concomitant with ERP.
4. Exception is taken also to the implications of the Economist's comparison of the total flight of capital (of which under-invoicing of exports is assumed to be a major item) with the amount of ECA aid.

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is in dollars. The total flight of capital, on the other hand, although expressed in dollars, is presumably a flight from the franc to all currencies harder than the franc, of which the Swiss franc and the Belgian franc are important examples. The opportunity for conversion of French francs to dollars through under-invoicing of exports to the United States is limited by the fact that the United States is currently taking only about 3 percent of total French exports. Obviously, therefore, the flight of capital into dollars by under-invoicing is extremely limited.

5. The French Government will not be able to take effective measures to curb directly the practice of under-invoicing. Under conditions of fluctuating prices and foreign exchange rates, the French Government, or any Government, even with the most determined effort, would find it difficult to distinguish relatively small understatements (say up to 20 percent) of export values from legitimate price variations. The problem is further complicated for the French Government by the cooperation of foreign importers of French products who accept the goods at low invoice values and build up foreign exchange balances for the account of the exporters from the large mark-ups taken in the importing country. The basic cause of under-invoicing is primarily the weak monetary and financial situation in France which can be removed only by the adoption of sound budgetary and financial practices on the part of the French Government.

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